



---

# Mid-Year Spending Reduction Proposals

2 0 0 3 - 0 4

---



Arnold Schwarzenegger, Governor  
State of California

December 2003

## OVERVIEW

For the past five years, California government has spent \$23 billion more than it has taken in.

Over the past five years, while revenues have increased by 25 percent, state expenditures have risen by 43 percent. If government had simply spent at the same rate that California's economy has grown, the state's budget would be balanced today.

If state government had not spent the extraordinary tax revenues from the one-time surge in capital gains and stock options on ongoing programs, the state budget would not be in the crisis it is in today.

Instead of solving these imbalances, the previous administration and the Legislature chose instead to borrow \$25 billion from future state budgets.

If, over the past five years, the previous administration and the Legislature had not created or expanded programs that the state could not afford – expenditures in the budget would be lower than they are today.

Over the past five years, state bureaucracy has grown and agencies have been allowed to consistently spend above and beyond their budgeted levels.

The combined result of this overspending is stark. California faces massive budget deficits and has run out of places to borrow. And if we do not get our fiscal house in order, we will not be able to refinance the \$14 billion of debt that matures in June, or to be able to pay our bills.

Governor Schwarzenegger did not create this crisis. But he is proposing a way to help lead California out of it.

**First**, the Governor is asking the Legislature to send to the voters a Constitutional spending limit that will significantly curtail spending next year.

This spending limit will require that expenditures next year, fiscal year 2004-05, cannot exceed revenues. It will truly require the state to live within its means. For the 2005-06 fiscal year, spending growth over the preceding year will be the same amount of growth in inflation and population.

**Second**, the Governor is asking the Legislature to send to the voters authorization for a General Obligation bond – but only if the Legislature approves the spending limit – in order to reduce the cost of currently contemplated borrowing. This bond would be used to refinance \$15 billion of the \$25 billion in debt that has already been incurred.

As the 2003-04 budget was being debated this past summer, the bond rating agencies chose to lower California's credit rating, citing the state's failure to close the gaps between revenues and spending, its reliance on short-term borrowing, and its use of spending deferrals. The rating agencies are also aware that legal challenges have been raised on both the pension obligation

bonds and the deficit bonds authorized by the Legislature in the current budget. The voter-approved bond authority would provide insurance should the courts find the existing bond proposals illegal.

**Third**, the Governor is asking the Legislature to start curtailing overspending – and start now. In order to balance the current year budget and begin to gain control of our fiscal situation, Governor Schwarzenegger has asked the legislature to enact roughly \$2.3 billion in current-year spending reductions.

Estimates vary on the size of the budget shortfall for the fiscal year we're now in. But they fall in the range of between \$2.2 billion and \$4.3 billion. The Governor is asking this Legislature to eliminate the \$2 billion of the projected shortfall immediately, and has proposed a list of 41 specific actions that cover a range of program areas, including transportation, resources, health and human services, and education.

The administration will be seeking additional savings through the new authority granted in this year's budget for the executive branch to make mid-year expenditure reductions. Furthermore, additional savings will be generated from the actions the Governor is taking through the executive order process.

When asked how California was going to get out of the fiscal crisis that it's in, the Governor said it very clearly: there's no two ways about it. It's not going to be easy. But we have to face reality.

No one is under any illusions about how difficult this task will be in such a short time frame. But the alternative – failing to take action – is not an option, and would only serve to put the state's fiscal future at an even greater level of risk.

## EXPENDITURE REDUCTIONS

### Addressing the Fiscal Challenge

This document proposes reductions and adjustments totaling \$3.9 billion over the two years. The proposed changes are summarized in the following table:

### General Fund Mid-Year Reductions by Category

(Dollars in Millions)

	<u>2003-04</u>	<u>2004-05</u>	<u>Total</u>	<u>%</u>
Cuts	\$1,261.4	\$1,436.2	\$2,697.6	69.5%
Fund Shifts	707.5	166.7	874.2	22.5%
Transfers/Other Revenue	291.0	17.1	308.1	7.9%
Loans/Borrowing	<u>3.8</u>	<u>0.0</u>	<u>3.8</u>	<u>0.1%</u>
<b>Totals</b>	<b>\$2,263.7</b>	<b>\$1,620.0</b>	<b>\$3,883.7</b>	<b>100.0%</b>

### BUSINESS, TRANSPORTATION AND HOUSING

#### Department of Financial Institutions

**-\$1.8 million**

**Loan \$1.8 million from the Credit Union Fund to the General Fund.** The Administration proposes a loan to the General Fund of \$1.8 million from the Credit Union Fund reserve. This loan will not affect the Department of Financial Institution's ability to conduct credit union examinations.

#### Department of Corporations (DOC)

**-\$0.5 million**

**Transfer \$500,000 from the State Corporations Fund to the General Fund.** The Administration proposes to transfer the proceeds of various settlements to the General Fund. The DOC's revenues from examination fees are special funds and are, therefore, to be used exclusively for DOC program administration. In contrast, settlement funds are civil penalties, which may be transferred to the General Fund. The DOC indicates there are additional

settlement monies that may be transferred to the General Fund without affecting the DOC's operations.

#### **Department of Housing and Community Development (HCD)**

**-\$5.1 million**

**Close Low Occupancy Migrant Farmworker Housing Center.** The Administration proposes the closure of the Blythe center during fiscal year 2003-04, which will generate a savings of \$140,000. The migrant farmworker housing center located in Blythe experiences an 82 percent vacancy rate. Other subsidized migrant housing options are available in the vicinity of the center.

**Return General Funds from Unused Appropriations for Housing Projects.** The HCD is reviewing the status of previously approved housing projects to identify projects that no longer require State assistance. This review is projected to identify \$5 million available for return to the General Fund. Transferring these funds back to the General Fund will not affect viable projects.

#### **California Housing Finance Agency (CalHFA)**

**-\$3.9 million**

**Return of Unused Funds to the General Fund.** There is a remaining balance of \$3.9 million from a 2000-01 General Fund appropriation for the California Housing Downpayment Assistance Program administered by the CalHFA. The Administration proposes to transfer this balance back to the General Fund. The program will continue to utilize \$50 million authorized by the Housing and Emergency Shelter Trust Fund Act of 2002.

#### **Office of Real Estate Appraisers**

**-\$2.0 million**

**Loan from the Real Estate Appraisers Regulation Fund to the General Fund.** The upswing in the real estate market has improved the revenues of the Real Estate Appraisers Regulation Fund allowing it to loan the General Fund \$2 million without impacting office activities.

#### **Department of Transportation (Caltrans)**

**-\$885.4 million**

**Retain Additional "Spillover" Sales Tax Revenue in the General Fund.** The Administration proposes to eliminate the transfer of all specified "spillover" sales tax on gasoline revenue to the Public Transportation Account in 2003-04. The spillover transfer is currently restricted to any spillover revenue exceeding \$87.5 million. The Department of Finance currently estimates that spillover revenue could reasonably exceed this amount by \$30 million in 2003-04 given current gasoline prices relative to other taxable sales providing a new General Fund benefit of an equal amount.

**Transfer non-Article XIX State Highway Account (SHA) funds to the General Fund in 2003-04 and 2004-05.** The SHA receives revenues from rental income, sales of documents, and other sources not subject to the expenditure restrictions in Article XIX of the Constitution.

Under existing statute, this revenue is transferred to the Public Transportation Account. The Administration proposes to transfer this unrestricted revenue, estimated at \$60.4 million in 2003-04 and \$47.2 million in 2004-05, to the General Fund.

**Maximizing Federal Fund Reimbursement Authority.** Improving financial cash management strategies in the Division of Local Programs and conforming the management of obligational authority (i.e. reimbursement authority) in that program to the department-wide standard will result in an availability of about \$800 million in unanticipated federal reimbursements over 2003-04 and 2004-05. These resources are not currently identified as available for expenditure in either the current budget, the existing cash forecast, or the 2004 State Transportation Improvement Plan Fund Estimate assumptions. The Administration proposes to use \$606 million of these funds as follows:

- **Reimburse the General Fund for Transportation-Related General Obligation Bond Debt Service.** The General Fund supports bond payments for three transportation-related general obligation bonds: Clean Air and Transportation Improvement (1990), Passenger Rail and Clean Air (1990), and Seismic Retrofit bonds (1996). The Administration proposed to transfer \$406 million from the State Highway Account to the General Fund to reimburse the General Fund for debt service on these bonds.
- **Proposition 2 Loan from the SHA to the General Fund.** It is proposed that \$200 million be loaned from the SHA to the General Fund in 2003-04 pursuant to Article XIX, Section 6(b)(1) of the Constitution. It is proposed that this loan be repaid with interest by June 30, 2007.

**Transfer from the Traffic Congestion Relief Fund (TCRF) to the General Fund.** The Administration proposes to transfer \$189 million from the TCRF to the General Fund. This amount represents the portion of the \$289 million General Fund Proposition 42 transfer in 2003-04 that provides funding for Traffic Congestion Relief Program (TCRP) projects. It is further proposed that the existing statutory identification of the individual TCRP projects be repealed and that TCRP allocations and TCRP letters of no prejudice be rescinded. These combined actions necessitate that existing project sponsors immediately initiate activities to secure alternative funding for the former TCRP projects to the extent that the projects are determined to be of sufficient priority.

**Eliminate SHA Funding for the Environment Enhancement and Mitigation (EEM) Program in 2003-04.** The 2003-04 Governor's Budget proposed the elimination of SHA funding for the EEM Program in 2003-04. The Legislature restored \$5 million of this funding. The 2003 Budget Act includes a \$5 million appropriation in the EEM Fund for 2003-04; however, the transfer item of \$5 million from the SHA to the EEM Fund was inadvertently omitted from the Budget Act. The Administration proposes that the EEM appropriation be eliminated from the Budget Act of 2003 to reflect retaining the \$5 million in the SHA.

#### **Department of Motor Vehicles (DMV)**

**-\$0.6 million**

**Eliminate General Fund Support for DMV Activities.** Chapter 107, Statutes of 2000, authorized a rebate of Vehicle License Fees. These activities will be suspended, commencing about January 1, 2004, without incurring significant risk to State resources. Further, the activities of the Anatomical Donor Designation Program will also shift to the department's Motor

Vehicle Account appropriation. Together, these actions will result in a savings to the General Fund of \$600,000 in 2003-04, approximately \$200,000 in 2004-05, and \$60,000 annually thereafter.

## **TECHNOLOGY, TRADE AND COMMERCE**

### **Technology, Trade, and Commerce Agency (TTCA)**

**-\$6.6 million**

**Capture Balances of Abolished Funds.** Chapter 229, Statutes of 2003, eliminates the TTCA, effective January 1, 2004. This same legislation eliminated the statutory basis for several programs of the TTCA and the related special funds. Pursuant to existing statute, the General Fund will subsume the assets and liabilities of these funds. The total ending balance of these funds, which shall be transferred to the General Fund, is estimated to be \$6,600,000.

## **RESOURCES**

### **Wildlife Conservation Board**

**-\$8.7 million**

**Natural Heritage Preservation Tax Credit Suspension.** The Administration proposes trailer bill language to amend Section 37022 of the Public Resources Code to suspend the issuance of tax credits by the Wildlife Conservation Board through June 2005, related to the Natural Heritage Preservation Tax Credit Act of 2000. Based on Franchise Tax Board and Department of Finance estimates, the temporary suspension of this tax credit is estimated to generate \$19 million in General Fund revenue (\$8.7 million for 2003-04 and \$10.3 million for 2004-05).

### **Department of Water Resources**

**-\$105 million**

**Local Flood Control Subventions.** The Local Flood Control Subventions Program reimburses local agencies for up to 70 percent of the non-federal share of costs for local flood control projects. The 2003 Budget Act appropriated \$116 million to reimburse local governments for this purpose. The Administration proposes to revert \$105 million in unencumbered funds to the General Fund.

## HEALTH AND HUMAN SERVICES

### Department of Health Services

**-\$210.7 million**

**Wage Adjustment Rate Program.** The Wage Adjustment Rate Program was established in 2000-01 to provide supplemental payments to long-term care facilities that have a collectively bargained agreement to increase salaries, wages, or benefits for caregivers. The 2003 Budget Act includes \$92 million (\$46 million General Fund) for this program. However, long-term care facilities have not yet submitted documentation, and no funds have been disbursed for this program. Due to the significant General Fund budget shortfall, the Administration proposes to eliminate the program, to achieve a savings of \$46 million in 2003-04.

**Medi-Cal Provider Rate Reduction.** The 2000 Budget Act included Medi-Cal provider rate increases totaling \$799.8 million (\$402.8 million General Fund). The 2002 Budget Act maintained these increases. The 2003 Budget Act reduces Medi-Cal provider rates by 5 percent, for \$115.1 million of General Fund savings in 2003-04. The Administration proposes to implement an additional 10 percent rate reduction for specified Medi-Cal providers, including physicians, non-emergency medical transportation, home health, and other medical providers and services, achieving \$160.9 million of General Fund savings in 2003-04.

**10 Percent Provider Payment Reduction in Public Health Caseload Programs.** The Administration proposes to reduce provider payments for Public Health caseload programs by \$3.8 million to reflect a 10 percent provider payment reduction, effective January 1, 2004, to conform to the Medi-Cal provider rate reduction discussed above. This reduction will affect the California Children's Services, the Child Health and Disability Prevention, and the Genetically Handicapped Persons programs. This action will save \$6.5 million in 2004-05.

### Department of Developmental Services

**-\$69 million**

**Eliminate Non-Core Regional Center Services.** The 2003 Budget Act provides \$1.7 billion General Fund for Regional Center purchase of services and operations. The Administration proposes to revert \$69 million to reflect the elimination of the following services from the Regional Center purchase of services budget: camping, social and recreational activities, non-medical therapy, and respite.

### Department of Social Services

**-\$137.1 million**

**Reduce CalWORKs Grants.** In order to allow federal Temporary Assistance for Needy Families (TANF) Block Grant funds to be available to offset increased CalWORKs program costs, the Administration proposes legislation to reduce CalWORKs grant levels by 5 percent. This proposal would reduce the monthly cash grant for a family of three living in a high-cost



county from \$704 to \$669 beginning April 1, 2004. It would result in federal fund savings of \$44.3 million and cost avoidance of \$990,000 in 2003-04 and \$179.7 million of savings in 2004-05.

**Transfer Federal Funds to Achieve General Fund Savings.** The Administration proposes that \$41.1 million in federal TANF Block Grant funds be transferred to the federal Social Services Block Grant to offset General Fund costs in the In-Home Supportive Services Program, resulting in General Fund savings of \$41.1 million in 2003-04.

**Transitional Food Stamp Benefit (TFSB) Program.** The Budget Act of 2003 provides \$1.2 million General Fund to implement the TFSB Program. The Administration proposes legislation to eliminate the program. Assuming an effective date of January 1, 2004, program elimination would result in General Fund savings of \$1.2 million in 2003-04 and \$3.1 million General Fund savings in 2004-05.

**California Veterans Cash Benefit (CVCB) Program.** The Budget Act of 2003 provides \$5.2 million General Fund for the CVCB Program. The Administration proposes legislation to eliminate the program. Assuming an effective date of April 1, 2004, program elimination would result in General Fund savings of \$1.3 million in the 2003-04 and \$5.5 million General Fund savings in 2004-05.

**Vehicle Resource Rule and Face-to-Face Interviews for Food Stamps.** Pursuant to Chapter 743, Statutes of 2003, effective January 1, 2004, the value of a car owned by food stamp applicants will not affect their eligibility for food stamps. Additionally, Chapter 743 would eliminate the required face-to-face interview as part of the food stamp application process. The Administration proposes to repeal these statutory changes for General Fund savings of \$186,000 in 2003-04 and \$444,000 in the 2004-05.

**In-Home Supportive Services (IHSS) Residual Program.** The Budget Act of 2003 provides \$410.8 million for the IHSS Residual Program. The Administration proposes legislation to eliminate the program. Assuming an effective date of April 1, 2004, this reduction would result in General Fund savings of \$90.3 million in 2003-04 and \$367.9 million in 2004-05.

**Eliminate Supportive Transitional Emancipation Program (STEP).** This discretionary Child Welfare Services program provides financial assistance to emancipating foster youth up to age 21 if they are participating in an educational or training program. Due to the lack of county participation in this program since it became operative in January 2002, no funding was budgeted in 2003-04. However, statute requires the State to fund this program if a county elects to participate. As a result, the State would incur costs to operate this optional statewide program in San Francisco County, beginning in January 2004. Instead, the Administration proposes that this program be eliminated to achieve a General Fund savings of \$38,000 in 2003-04 (start-up and implementation costs) and \$338,000 in 2004-05.

**Increase Community Care Licensing Fees.** Current State law prescribes an annual fee schedule for all licensed community care facilities. The Administration proposes that fees for child day care, children's residential, adult care, and senior care facilities be increased annually, in approximately equal increments over a three-year period, until the General Fund cost of the Community Care Licensing Program is supported entirely by the fees collected. This proposal is estimated to generate additional General Fund revenues of \$1.2 million in 2003-04 and \$5.8 million in 2004-05, assuming a May 1, 2004 implementation date.

## **Various Departments**

**-\$40.8 million**

**Maintain Current Enrollment/Caseload Level For Various Health and Human Services Programs.** To address the State's budget shortfall, it is necessary to cap various health and human services programs at the January 1, 2004 estimated caseload level. As part of this effort, waiting lists will be established; and, as attrition occurs, new enrollments would be permitted up to the capped level.

Programs include the Healthy Families Program, regional centers, AIDS Drug Assistance Program, certain populations in the State Hospitals, rehabilitation programs, the Genetically Handicapped Persons Program, and the California Children's Services State-only Program. In order to achieve savings in these programs, legislation must be enacted in 2003-04 to include suspending the Lanterman Act, which provides an entitlement to services for the developmentally disabled. This change will achieve General Fund savings of \$11 million in 2003-04 and \$60.9 million in 2004-05.

**Maintain Current Enrollment/Caseload Level for State-only Health and Human Services Programs for Immigrants.** To address the State's budget shortfall, it is proposed to cap enrollment in various State-funded health and human services programs for immigrants at the January 1, 2004, caseload level. Waiting lists will be established; and, as attrition occurs, new enrollments will be permitted up to the capped level. This change will achieve General Fund savings of \$153,000 in 2003-04 and \$25.0 million in 2004-05.

Programs included in this cap are Medi-Cal Non-Emergency Services for Documented and Undocumented Immigrants, the Healthy Families Program for Documented Immigrants, CalWORKs Benefits for Recent Documented Immigrants, the California Food Assistance Program, and the Cash Assistance Program for Immigrants. Statutory changes must be enacted to implement these enrollment caps in 2003-04.

**Reversion of Prior Year and Current Year Savings.** The Administration proposes additional prior year and current year reversions of \$29.6 million General Fund (\$16.6 million State Operations and \$13.0 million Local Assistance) for the Emergency Medical Services Authority; the Managed Risk Medical Insurance Board; and the Departments of Alcohol and Drug Programs, Health Services, Developmental Services, Mental Health, Community Services and Development, Rehabilitation, and Child Support Services.

## **HIGHER EDUCATION**

### **University of California**

**-\$84.9 million**

**Outreach Programs, Labor Studies, and Unallocated Reduction.** The Administration proposes to reduce the University of California's 2003-04 General Fund appropriation by \$29.9 million (from \$2.902 billion to \$2.872 billion). This action includes a \$12.2 million

reduction in outreach programs, a \$15.7 million unallocated reduction, and a \$2 million reduction to the Multi-Campus Research Unit for Labor Studies.

**Surplus Land Sale Proceeds.** Additionally, the Board of Regents has approved the transfer in 2003-04 of approximately \$55 million in surplus land sale proceeds to the General Fund in exchange for lease-purchase financing authority of the same magnitude for a new Agricultural Genomics research facility at UC Riverside. It is anticipated that lease payments would begin no sooner than the 2008-09 fiscal year and would require \$4.3 million in General Fund lease payments annually for 25 years. Appropriation authority for the new facility will be addressed in the 2004-05 Governor's Budget.

#### **Hastings College of the Law**

**-\$0.3 million**

**Unallocated Reduction.** The Administration proposes a \$302,000 unallocated reduction to the Hastings College of the Law's 2003-04 General Fund appropriation. This proposal reduces the General Fund appropriation from \$11.4 million to \$11.1 million.

#### **California State University**

**-\$23.7 million**

**Outreach Programs and Unallocated Reduction.** The Administration proposes a \$12.4 million reduction in outreach programs and an \$11.3 million unallocated reduction to the California State University's 2003-04 General Fund appropriation. This proposal reduces the General Fund appropriation from \$2.492 billion to \$2.468 billion.

#### **California Student Aid Commission**

**-\$50 million**

**Cal Grant Program.** The Administration proposes to reduce the California Student Aid Commission's General Fund appropriation for Local Assistance by \$50 million, from \$682.9 million to \$632.9 million. This reflects the Commission's revised 2003-04 estimate for the Cal Grant Program.

**Assumption Program of Loans for Education (APLE).** The Administration also proposes to reduce the number of APLE warrants available in fiscal year 2003-04 by 4,200 (from 7,700 to 3,500), effective January 1, 2004. To date, approximately 3,500 warrants have been issued. This action will result in an estimated savings of up to \$46 million over time beginning in 2005-06. Separate legislation is proposed to specify that the number of warrants issued shall be determined solely through the annual budget process.

## **LABOR AND WORKFORCE DEVELOPMENT AGENCY**

### **Department of Industrial Relations**

**-\$0.8 million**

**Position Reductions.** The Administration proposes to reduce a total of 10 personnel years and \$808,000 from the Department's General Fund appropriation. These position reductions will be allocated to the Divisions of Occupational Safety and Health, Labor Standards Enforcement, and Labor Statistics and Research.

## **GENERAL GOVERNMENT**

### **Tax Relief**

**-\$475 million**

**Increased Vehicle License Fee Loan.** The Administration proposes to modify its earlier vehicle license fee proposal by decreasing the amount to be appropriated by \$475 million. As part of the 2003 Budget Act agreement, it was anticipated that local governments would lose \$825 million due to the implementation lag of the higher vehicle license fees. This loss was to be repaid from the General Fund in 2006-07. It is currently estimated that the loss of revenue to local governments from this lag will be \$1.3 billion, or \$475 million above expectations. Under this proposal, this additional \$475 million loss would be added to the amount to be repaid in 2006-07.

### **Shared Revenues**

**-\$5.9 million**

**Elimination of General Fund Backfill Related to Commercial Trailers.** The Administration proposes to eliminate the remaining General Fund backfill related to Chapter 861, Statutes of 2000. This action will result in a savings of approximately \$5.9 million in 2003-04 and \$11.9 million in 2004-05.

Chapter 861, Statutes of 2000, replaced the current weight fee schedule for commercial trucks, which was based on unladen weight, with a gross vehicle weight schedule. This change was necessary to conform to the federal International Registration Plan by January 1, 2002. Chapter 861 also provided that the vehicle license fee will no longer be charged on commercial trailers, and the loss in revenue to local governments from that exclusion will be backfilled by the General Fund. Chapter 228, Statutes of 2003, eliminated approximately 75 percent (the general purpose portion) of these monies. In order to address the current General Fund budget shortfall, legislation will be introduced in the special session to eliminate the remaining portion of this backfill.

<b>STATEWIDE</b>
------------------

**Control Section 4.10 – Various Departments**

**-\$150 million**

**Additional Control Section 4.10 Reductions.** In early November, the previous Director of Finance notified the Legislature of reductions to satisfy the minimum requirements of Budget Act Control Section 4.10. We are now proposing to affect additional reductions pursuant to the authority provided in Control Section 4.10 to provide General Fund reductions of at least \$150 million in 2003-04. Because not all of the specific reductions have been identified, it is not possible to precisely estimate the impact of the reductions in 2004-05, but at least \$150 million of additional General Fund reductions are expected in 2004-05.